



## STATE BOARD OF EQUALIZATION

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No. 78/128

July 27, 1978

TO COUNTY ASSESSORS:

THE VALUATION OF ORCHARDS AND VINEYARDS

The valuation of trees and vines under the provisions of Article XIII A of the Constitution (Proposition 13) is governed by Property Tax Rule 466. This rule applies to orchards whether or not subject to California Land Conservation Act (LCA) contracts. The following questions and answers are designed to assist in the application of Rule 466.

QUESTION: What value should be enrolled in 1978 for an orchard, not under LCA contract, planted in 1976? What value in 1981?

ANSWER: The value to be enrolled in 1978 will be the base value of the land and nonliving improvements, subject to the appropriate Consumer Price Index (CPI) adjustments. The living improvements are exempt by the Constitution for four years after the season of planting. In 1981 the property value will include, in addition to land and nonliving improvements, the value of the trees at the time of planting, subject to the appropriate CPI adjustments. The correct procedure is illustrated by the following example:

25 acres are planted to walnuts in 1976, base values are:

Land: 25 acres x \$1,500/acre (1975 base value) = \$37,500

Improvements: 70 stakes/acre @ .72 each  
x 25 acres (1976 base value) = 1,260

Trees: 25 acres x \$371.40/acre (value at  
planting) (see question number 2) = 9,285

1978 roll values:

Land: \$37,500 x (1.02<sup>3</sup>) = \$39,795

Improvements: \$1,260 x (1.02<sup>2</sup>) = 1,311

Trees: Year 2 of 4 year exemption EXEMPT

July 27, 1978

1981 roll values (assuming CPI factor continues at 2 percent)

Land: \$37,500 x (1.02 <sup>6</sup> )	=	\$42,231
Improvements: \$1,260 x (1.02 <sup>5</sup> )	=	1,391
Trees: \$9,285 x (1.02 <sup>5</sup> )	=	10,251

Note that CPI adjustments to tree values are made for the exemption period.

QUESTION: In the above example, how was the value of the trees at the time of planting determined?

ANSWER: The base year value of newly planted trees not under LCA contract should be determined using the most appropriate approach or approaches to value. In reality, the scarcity of comparable sales data and the difficulty of making income projections will favor the use of the cost approach. In determining the replacement cost of newly planted trees, it is important to include all costs associated with planting. In the above example, replacement cost per acre was computed as follows:

Mark, layout and stake: 140 man-hours and labor	\$ 17.20
Dig holes: 70 @ .50	35.00
Trees: 70 @ \$3.74	261.80
Planting (labor): 70 @ .48	33.60
Whitewash: 70 @ .10	7.00
Tanking (day of planting): 70 @ .24	16.80
Total Per Acre Cost of Planting	\$371.40

QUESTION: How is the base year value of trees planted prior to 1975 but exempt on the 1975 lien date determined?

ANSWER: If not subject to an LCA contract, the base year value of living improvements exempt on the 1975 lien date is their market value on the 1975 lien date. The base value of trees under LCA contract, but exempt for 1975, is their 1975 restricted value. These base values, subject to the appropriate CPI adjustments, shall not be enrolled until the lien date following the expiration of the exemption.

QUESTION: How shall trees planted after 1975 on land subject to LCA contract be valued?

July 27, 1978

ANSWER: Living improvements planted on land restricted by LCA contract must be valued by the income approach, employing the appropriate LCA capitalization rate. The example that follows illustrates this procedure:

For this example it is assumed that production will be inclining for the first 10 years, level in years 11 through 20, and declining in years 21 through 25. Each of these segments must be treated separately. The capitalization rate is found to be 11 percent; 8 percent yield plus 2 percent risk, plus 1 percent taxes. (Note: the appropriate LCA yield rate and the appropriate tax component are determined by the date of planting. In this case the day of planting is after 1978 and the tax component is the post Proposition 13 statutory 1 percent.)

(1) Inclining Period:

<u>Year</u>	<u>Net to Trees</u>	<u>Years Deferred</u>	<u>PW 1 @ 11%</u>	<u>Value</u>
1	-560	1	.9009	-504
2	-320	2	.8116	-260
3	-410	3	.7311	-300
4	-341	4	.6587	-225
5	-282	5	.5934	-167
6	-118	6	.5346	-63
7	+ 46	7	.4816	+ 22
8	+220	8	.4339	+ 95
9	+348	9	.3909	+136
10	+545	10	.3521	+192

Total Per Acre Value Years 1 through 10 -1,074

(2) Stable (level) Period:

Net to trees		PW 1/p 10 years @ 11%		PW 1, 10 years @ 11%	
\$545	x	5.8892	x	.3521	= +1130

(3) Declining Period:

$$\$545 \div (.11 + .20) = + 218$$

Total Value at Date of Planting:

$$-1074 + 1130 + 218 = + 274/\text{acre}$$

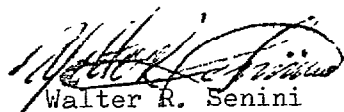
TO COUNTY ASSESSORS

-4-

July 27, 1978

The exemption period and cost of living adjustments are handled in the same manner as unrestricted properties.

Sincerely,



Walter R. Senini  
Chief of Operations  
Property Tax Department

WRS:ebv